

FAA-02-13918-4

205735

DEPT OF TRANSPORTATION

02 DEC -2 PM 4:25

Name of Person
Manager, Revenue Accounting
Name of Airline
Address

Dear Ms./Mr.

The Federal Aviation Administration (FAA) is sending this letter to request your voluntary submission of information pertaining to the costs your airline incurs in collecting, handling, and remitting Passenger Facility Charge (PFC) revenues. Your data submission and those of other air carriers, prepared under the guidelines specified in the enclosures to this letter, will enable the FAA to evaluate whether the current \$0.08 handling fee is sufficient (when added to interest earned on PFC revenues prior to their remittance to airports) to compensate air carriers for their PFC expenses. After receipt of this information from the air carriers, the FAA will initiate a congressionally-directed rulemaking that could lead to an adjustment in the handling fee to a level that better reflects average costs to the air carriers.

Background: The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), which was signed into law on April 5, 2000, made significant changes to the PFC program. Among these changes was an increase in the maximum PFC charge to \$4.50 per enplaned revenue passenger, subject to specific conditions outlined in the statute. The FAA implemented these statutory changes through a final rule published in the Federal Register on May 30, 2000.

House Report 106-513, which accompanied AIR-21, provides further guidance to the FAA regarding the PFC program. In particular, the following discussion in the report pertains to Section 105 of AIR-21:

"Under the law governing passenger facility charges, FAA is directed to prescribe regulations which establish the portion of a PFC which the airlines may retain to reimburse them for their necessary and reasonable expenses in collecting and handling the fees. The law specifically requires that the airline fee be net of any interest accruing to the airline after the collection and before remittance of the fee to the airport. A number of air carriers have communicated to the conferees their views that the cost of collection allowed by current FAA regulations, \$.08, is too low. While the Conferees did not evaluate the correctness of these claims, we believe that

the airlines should be given the opportunity to demonstrate their correctness in a rulemaking proceeding. As soon as the airlines submit the evidence necessary for evaluation of their claim the FAA shall make its final decision within 189 days."

Implementation of Congressional Guidance: On April 27, 2000, the Office of the Inspector General (OIG) of the Department of Transportation issued a memorandum to the FAA providing recommendations on the conduct of the proposed rulemaking on the PFC collection costs. The OIG recommended that the FAA include requirements that cost data presented by the airlines:

- Must be limited only to those incremental costs that are directly associated with PFC collection, handling, remittance, reporting, recordkeeping, or auditing. Though incremental cost compensation does not include an allocation for indirect costs such as utilities, officer salaries, and other administrative expense, it will compensate air carriers for the additional costs of handling and remitting PFC's; and
- Must be accompanied by an independent audit opinion stating the costs are supportable, presented in accordance with generally accepted accounting principles, and in compliance with the requirement of the proposed rulemaking.

Over the last several months, we have worked in close cooperation with the Air Transport Association of America (ATA) and airline independent accountants to develop a series of cost definitions that we believe to be consistent with the OIG's recommendation and to develop an agreed upon procedures report that an independent accountant could use to evaluate the claimed costs. These materials, along with a recommended format for submitting the cost data, are enclosed with this letter. We are asking that incremental costs be calculated from 1999 actual data where possible. To the extent that you submit data on prospective costs attributable to implementing the PFC provisions of AIR-21, you should document these costs with information on the components giving rise to the costs, including any available internal or third party documentation.

Please note that the listing of an item in the enclosed cost definitions does not necessarily represent a final FAA determination that the item represents a cost of collecting and remitting PFC revenue that is properly reimbursable from PFC revenue. Rather, some items have been included because they were identified by at least one air carrier as collection or handling costs. During the rulemaking process, some commenters and/or the FAA may disagree with the inclusion of one or more items. However, information on all listed cost items is requested in this exercise to avoid the need to solicit additional data should the FAA determine in the rulemaking that each cost item is properly reimbursable.

Finally, the FAA is not seeking cost data for years prior to 1999. Should one or more air carriers, in the development of data for this exercise, conclude that they have evidence of likely under-compensation in years prior to 1999, they would be able to petition the FAA for a separate rulemaking to address possible under-compensation in those years.

We ask that you submit your cost data directly to your independent accountant, who would review the costs and issue the agreed upon procedures report. Please indicate in your submission if it also includes cost data for subsidiary carriers affiliated with your company. You would then forward the cost data, with the accountant's report, to the following address by December 31, 2000:

Passenger Facility Charge Branch (APP-530)
Attn: Joseph Hebert
Airports Financial Assistance Division, Room 619
Federal Aviation Administration
800 Independence Avenue, S.W.,
Washington, DC 20591

The FAA cannot commence its rulemaking procedure until it has received a sufficient volume of qualifying submissions of 1999 data. Due to the importance of obtaining a sufficient volume of data, the FAA is requesting that all air carriers receiving this letter (which collectively account for more than 95 percent of the Nation's passenger enplanements) provide the requested information. In no case could the FAA proceed without qualifying responses from airlines that collectively represent at least 75 percent of enplanements at PFC locations. This minimum response rate is necessary to give an adequate view of current industry cost. A sample of less than 75 percent, if it included a disproportionate representation of costs from carriers with higher PFC handling costs, would not yield an accurate average handling fee cost calculation for the industry.

Thank you for your cooperation. Should you have any questions about this request, please contact Mr. Eric Gabler, PFC Branch Manager, at (202) 267-8170, or Mr. Joseph Hebert, PFC Branch, at (202) 267-8902. In addition, Mr. Donald Minnis of the ATA, at (202) 626-4103, is available to answer questions you may have.

Sincerely,

Barry L. Molar
Manager, Airports Financial
Assistance Division

Enclosures

INDEPENDENT ACCOUNTANT'S AGREED UPON PROCEDURES

Airline X

Agreed-Upon Procedures on Passenger Facility
Charges Incremental Costs

December 31, 1999

Together with Independent Public Accountants' Report

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To Airline X and
the Federal Aviation Administration:

We have performed the procedures enumerated in Attachment I, which were agreed to by **AIRLINE X** (the "Company") and the Federal Aviation Administration ("FAA"), solely to assist you in evaluating the accompanying schedule of incremental costs directly associated with Passenger Facility Charges ("PFC") collection, handling, remittance, reporting, recordkeeping and auditing for the year ended December 31, 1999. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the FAA and the Company. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose.

See Attachment I for the procedures performed on this engagement and the related results.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying schedules. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management of the Company and the FAA, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

XYZ Firm

Anytown, USA
December xx, 2000

Attachment I

As determined by Airline X and the FAA, XYZ Firm will perform the following procedures:

1. We will obtain a summary schedule from Airline X of all costs attributed to the collection and administration of passenger facility charges ("PFC), by expense caption, for the year ended December 31, 1999.
2. We will obtain a schedule from Airline X of the total dollar amount of PFC's collected, refunded, and remitted for the year ended December 31, 1999 and agree the total to an Airline X system generated report. We will calculate the number of PFC's collected for the year by dividing the total dollar amount of PFC's collected by \$3.
3. We will obtain a schedule from Airline X of the total dollar amount of interest income earned by the company on PFC funds it held between the time of collection from passengers and the time of remittance to and receipt by the airport(s) (or the refund of the PFC funds to passengers) for the year ended December 31, 1999.
4. We will test the summation of the total 1999 costs, as reported on the schedule obtained in step 1., for clerical accuracy.
5. We will perform the following procedures related to each expense caption, as listed on the schedule obtained in step 1., and the interest earned amount as reported on the schedule obtained in step 3., for the year ended December 31, 1999:

<u><i>Cost Caption</i></u>	<u><i>Procedures</i></u>
a. Credit Card Fees	<ol style="list-style-type: none">i. We will obtain from Airline X, a schedule containing the breakout of total sales by month, for the year ended December 31, 1999, separated between cash sales and credit card sales, and agree two months of sales to the general ledger.ii. We will recalculate, based on the schedule obtained in step 5.a.i., the percentage of credit card sales as a portion of total sales for the year.iii. We will recalculate "PFC dollars collected via credit card sales" for the year ended December 31, 1999 by multiplying total PFC dollars collected less PFC dollars refunded, from the schedule obtained in step 2., by the percentage

- calculated in step 5.a.ii.
 - iv. We will recalculate the “credit card discount expense” related to PFC’s for 1999 by multiplying the PFC dollars collected via credit card sales, as calculated in step 5.a.iii., by the average credit card discount percentage, as determined by Airline X.
 - v. We will recalculate “bad debt expense” related to PFC’s for 1999 by multiplying the PFC dollars collected via credit card sales, as calculated in step 5.a.iii., by the bad debt rate, as determined by Airline X.
 - vi. We will sum the credit card discount expense, calculated in step 5.a.iv., and the bad debt expense, calculated in step 5.a.v., for 1999 and agree the total to the respective amount reported on the schedule obtained in step 1.
- b. Audit Fees
 - i. We will agree the fees, reported on the schedule obtained in step 1., to XYZ Firm bills (or schedule of fees) for the audit, agreed-upon procedures and/or any additional charges related to PFC’s for 1999.
- c. PFC Disclosure
 - i. We will obtain from Airline X, a summary of all disclosure cost components related to PFC’s for 1999.
 - ii. We will agree the total costs from the schedule obtained in step 5.c.i. to the respective amount reported on the schedule obtained in step 1.
 - iii. We will recalculate disclosure costs for 1999, using Airline X’s methodology and assumptions, which considers number of media units containing PFC information, cost per media unit and portion of ad space attributed to PFC language.
- d. Reservations
 - i. We will obtain from Airline X, a summary of all reservations cost components related to PFC’s for 1999.

- ii. We will agree the total costs from the schedule obtained in step 5.d.i. to the respective amount reported on the schedule obtained in step 1.
 - iii. We will recalculate reservations expense for 1999 by multiplying the total number of PFC's collected for 1999, as calculated in step 2., by Airline X's estimate of the labor cost involved in addressing each customer inquiry regarding PFC's and applicability to tickets, telecommunications charges and Airline X's estimate of the number of PFC's impacted by customer inquiries.
- e. Passenger Service
 - i. We will obtain from Airline X, a summary of all passenger service cost components related to PFC's for 1999.
 - ii. We will agree the total costs from the schedule obtained in step 5.e.i. to the respective amount reported on the schedule obtained in step 1.
 - iii. We will recalculate passenger service expense for 1999 by multiplying the total number of PFC's collected for 1999, as calculated in step 2., by Airline X's estimate of the labor cost to explain to customers the applicability of PFC's to their journey and the issuance of their tickets when the reservation is made or the purchase is made at a ticket office, as well as adding in all costs related to time and materials associated with the issuance of related documents, such as refunds and exchanges.
- f. Revenue Accounting, Data Entry, Accounts Payable and Tax
 - Data Entry*
 - i. We will obtain from Airline X, a summary of all data entry cost components related to PFC's for 1999.
 - ii. We will agree the total costs from the schedule obtained in step 5.f.i. to the respective amount reported on the schedule obtained in step 1.
 - iii. We will recalculate the data entry costs for 1999, based on Airline X's methodology and

assumptions, which incorporate estimates of managerial, staff, and clerical employee time spent related to PFC's, entering data and supplies costs.

Revenue Accounting

- iv. We will obtain from Airline X, a summary of all revenue accounting cost components related to PFC's for 1999.
- v. We will agree the total costs from the schedule obtained in step 5.f.iv. to the respective amount reported on the schedule obtained in step 1.
- vi. We will recalculate the revenue accounting costs for 1999, based on Airline X's methodology and assumptions, which incorporate estimates of managerial, staff and clerical employee time spent related to PFC's and supplies costs.

Accounts Payable

- vii. We will obtain from Airline X, a summary of all accounts payable cost components related to PFC's for 1999.
- viii. We will agree the total costs from the schedule obtained in step 5.f.vii. to the respective amount reported on the schedule obtained in step 1.
- ix. We will recalculate the accounts payable costs for 1999, based on Airline X's methodology and assumptions, which incorporate estimates of new vendor costs, data input time, monthly and quarterly mailing, and other costs related to PFC administration.

Tax

- x. We will obtain from Airline X, a summary of all tax department cost components related to PFC's for 1999.
- xi. We will agree the total costs from the schedule obtained in step 5.f.x. to the respective amount reported on the schedule obtained in step 1.
- xii. We will recalculate the tax costs for 1999, based on Airline X's methodology and

assumptions, which incorporate estimates of managerial and staff employee time spent related to PFCs and supplies costs.

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| g. Corporate Property | <ul style="list-style-type: none">i. We will obtain from Airline X, a summary of all corporate property cost components related to PFC's for 1999.ii. We will agree the total costs from the schedule obtained in step 5.g.i. to the respective amount reported on the schedule obtained in step 1.iii. We will recalculate the costs for 1999, based on Airline X's methodology and assumptions, which incorporates estimates of employee time spent meeting with airports regarding PFCs and travel expenses. |
| h. Training--Reservations, Ticket Agents and Other Departments | <ul style="list-style-type: none">i. We will obtain from Airline X, a summary of all departmental training costs allocated to PFC's for 1999.ii. We will agree the total costs from the schedule obtained in step 5.h.i. to the respective amount reported on the schedule obtained in step 1.iii. We will recalculate the costs for 1999, based on Airline X's methodology and assumptions, which consider agent population, agent turnover] average hour of training and labor rates. |
| i. Carrier Ongoing Information Systems | <ul style="list-style-type: none">i. We will obtain from Airline X, a summary of all carrier ongoing information systems costs allocated to PFC's for 1999.ii. We will agree the total costs from the schedule obtained in step 5.i.i. to the respective amount reported on the schedule obtained in step 1.iii. We will recalculate the costs for 1999, based on Airline X's methodology and assumptions, which considers ongoing costs related to the maintenance of systems, data storage, resource materials, and the additional run time to price and print tickets. |

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| j. CRS Ongoing Costs | <ul style="list-style-type: none"> i. We will obtain from Airline X, a summary of all costs related to ongoing maintenance of PFC data for 1999. ii. We will agree the total costs from the schedule obtained in step 5.j.i. to the respective amount reported on the schedule obtained in step 1. iii. We will agree the costs components to client analyses provided by Airline X. |
| k. PFC Absorption | <ul style="list-style-type: none"> i. We will inquire of Airline X as to which airports it absorbed PFC during 1999. ii. We will obtain a schedule of PFC dollars collected for each airport during the periods in which PFC's wereare absorbed and number of PFC's absorbed during the same periods. iii. We will recalculate absorption cost by multiplying total PFC's collected, by airport, by the absorption factor, as determined by Airline X. iv. We will agree the total from the calculation in step 5.k.iii. to the respective amount reported on the schedule obtained in step 1. |
| l. Airline Tariff Publishing Company (ATPCO) | <ul style="list-style-type: none"> i. We will obtain from Airline X, a schedule from all ATPCO costs incurred in 1999. ii. We will agree the total costs from the schedule obtained in step 5.l.i. to the respective amount reported on the schedule obtained in step 1. iii. We will select the five largest charges for 1999 and agree the charges to the respective ATPCO invoice (or other document supporting such costs). |
| m. Airline Reporting Corporation (ARC) | <ul style="list-style-type: none"> i. We will obtain from Airline X, a schedule of all ARC costs incurred in 1999. ii. We will agree the total costs from the schedule obtained in step 5.m.i. to the respective amount reported on the schedule obtained in step 1. iii. We will select the five largest charges for 1999 |

and agree the charges to the respective ARC invoice (or other document supporting such costs).

n. Interest Income

- i. We will obtain from Airline X, a schedule containing the breakout of the total dollar amount of interest earned on PFC funds held by the company by month, for the year ended December 31, 1999.
- ii. We will obtain from Airline X a schedule showing the average number of days that a PFC collected in each month was held between time of receipt by the airline and time of receipt by the airport(s); or (in the case of refunded tickets) time of refund to the passenger.
- iii. We will obtain from Airline X a schedule of the average interest rates earned for each month in 1999 on its short-term investment portfolio.
- iv. We will recalculate two months of "Interest earned on PFC dollars collected from sales" for the year ended December 31, 1999, by multiplying monthly PFC dollars collected from the schedule obtained in step 2. by days held (both for remitted PFC's and PFC's refunded to passengers), as a proportion of a 360 day year obtained in step 5.n.ii, and then by the appropriate monthly interest rate percentages obtained in step 5.n.iii.
- v. We will agree the total income for each month, as calculated in step 5.n.iv., to the respective amount reported on the schedule obtained in step 3.

6. We will calculate the average cost per PFC for the year ended December 31, 1999 by dividing the total costs for the year, as reported on the schedule obtained in step 1., less the interest earned on collected PFC's, as reported in step 3, by the number of PFC's collected and the number of PFC's remitted, as determined in step 2.